

Message Text

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ACTION MMO-01

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04

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-----071541 261929Z /50

R 181110Z JUL 78

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 8216

INFO AMEMBASSY DACCA

AMEMBASSY KABUL

AMEMBASSY NEW DELHI

AMEMBASSY TEHRAN

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E.O. 11652: N/A

TAGS: EGEN, PK

SUBJ: CERP 0200- PAKISTAN BUDGET FOR 1978: MORE OF THE SAME

REFS: ISLAMABAD 6356, B) A-1167

BEGIN SUMMARY: THIS IS A JOINT EMBASSY/USAID MESSAGE.
PAKISTAN'S BUDGET FOR PFY -1979, PRESENTED TO THE NATION
BY GENERAL ZIA ON JUNE 29, SHOWS NO STRIKING DEPARTURE
FROM THE POLICIES OF PREVIOUS YEARS. ALTHOUGH THE
BUDGETERS ADMITTED THAT THE PRIORITIES OF THE FIVE YEAR
PLAN COULD NOT BE FULLY MET, BECAUSE OF PAKISTAN'S
SEVERE RESOURCE CONSTRAINS, THEY DID PROMISE A START--A
PROMISE WHICH THE BUDGET DOES NOT FULFILL TO ANY MEANING-
FUL EXTENT. TOTAL GOVERNMENT RESOURCES IN PFY 1979,
OF WHICH FOREIGN ASSISTANCE IS ONE-THIRD, ARE EXPECTED TO
INCREASE BY 13 PERCENT TO RS. 39 BILLION (DOLS-RS.9.9)OVER
REVISED ESTIMATES OF RS. 34 BILLION FOR PFY 1978,
INTERNAL RESOURCES ARE EXPECTED TO INCREASE BY RS. 2
BILLION MAINLY FROM CUSTOMS AND EXCISE DUTIES. THE
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GOVERNMENT IS RELAYING ON CONTINUED HIGH LEVELS OF
IMPORTS AS A REVENUE GENERATOR RATHER THAN CONCRETE
POLICIES TO MOBILIZE DOMESTIC RESOURCES. INCOME TAX
RECEIPTS/ARE BUDGETED TO INCREASE AT ONLY TWO-THIRDS THE
EXPECTED GROWTH RATE IN GNP AND REMAINS A VERY SMALL
COMPONENT OF GOVERNMENT REVENUES. INTRODUCTION OF THE
AGRICULTURAL INCOME TAX WAS AGAIN DEFERRED.

TOTAL GOVERNMENT EXPENDITURE IN PFY-1978 ARE PROJECTED TO REACH RS. 43.2 BILLION, RS. 5 BILLION HIGHER THAN LAST YEAR'S REVISED ESTIMATE OF RS. 38.1 BILLION. GDP IN REAL TERMS IS PROJECTED TO RISE BY 6 PERCENT, ABOUT THE SAME AS LAST YEAR. (THE BUDGET DOESN'T FORECAST GNP FOR PFY-1979, BUT A LIKELY FURTHER INCREASE IN WORKERS RETIREMENT, PERHAPS TO AS MUCH AS DOLS 1.5 BILLION, COULD INCREASE GNP BY OVER 7 PERCENT BRINGING IT TO AROUND RS. 200 BILLION . AS A PERCENTAGE OF PROJECTED GNP, TOTAL SPENDING WOULD THEN DECREASE FROM 23 PERCENT IN PFY-1978 TO ABOUT 21 PERCENT THIS YEAR). NON-DEVELOPMENT EXPENDITURE IS PROJECTED TO INCREASE 20 PERCENT IN PFY-1979 TO RS. 24 BILLION, LARGELY BECAUSE OF HIGHER DEBT SERVICE ARISING FROM THE ENDING OF THE 1974 DEBT RESCHEDULING AGREEMENT. DEFENSE SPENDING IS UP 8 PERCENT OVER REVISED PFY-1978 FIGURES WHICH IN REAL TERMS MEANS A DECREASE AND COMPRISES 42 PERCENT OF NON-DEVELOPMENT EXPENDITURE. SUBSIDIES FOR WHEAT ARE ALSO PROJECTED TO INCREASE SUBSTANTIALLY (30 PERCENT) OVER REVISED PFY-1978 FIGURES AND MORE RECENT INDICATIONS OF A SMALLER THAN EXPECTED WHEAT CROP, WHICH WILL REQUIRED LARGER IMPORTS OF WHEAT WITH A LANDED COST HIGHER THAN DOMESTIC WHEAT, PROBABLY MEAN THAT THE FIGURE IS UNDERSTATED. THE DEVELOPMENT BUDGET AT RS.19 BILLION IS UP ONLY 12 PERCENT OVER THE ORIGINAL PFY-1978 BUDGET AND UNCLASSIFIED

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5 PERCENT OVER THE REVISED PFY-1978 BUDGET. IN KEEPING WITH ANNOUNCED INTENTIONS TO ACCELERATE COMPLETION OF THE KARACHI STEEL MILL, EXPENDITURE ON THE MILL ARE BUDGETED TO INCREASE FROM RS. 2 BILLION TO RS. 3 BILLION. NECESSARY REPAIRS TO TARBELA DAM ARE ALSO A DRAIN ON THE DEVELOPMENT BUDGET. THE INCREASE IN THE STEEL MILL AND TARBELA EXPENDITURES IS GREATER THAN THE RS. 1 BILLION INCREASE IN BUDGETED DEVELOPMENT SPENDING AS A WHOLE, WITH THE RESULT THAT SEVERAL OTHER SECTORAL ALLOCATIONS ARE LOWER. THE BASIC HUMAN NEEDS SECTORS OF POPULATION PLANNING, HEALTH AND EDUCATION SUFFERED CUTS FROM PFY-1978 AND TOTAL SPENDING ON THESE SECTORS IS PROJECTED AT ONLY 5 PERCENT OF TOTAL DEVELOPMENT EXPENDITURES. AGRICULTURE PROPER WAS ALLOCATED 7PERCENT OF DEVELOPMENT SPENDING AND THIS AMOUNT IS ALMOST ENTIRELY FOR FERTILIZER SUBSIDIES WHICH ARE RELATED TO THE EFFORT TO HOLD THE LINE ON THE WHEAT PROCUREMENT PRICE TO FARMERS. DESPITE THE OBVIOUS EFFORT TO RESTRAIN BOTH NON-DEVELOPMENT AND DEVELOPMENT EXPENDITURES (WITH THE NOT ABLE EXCEPTION OF SUBSIDIES AND THE KARACHI STEEL MILL) THE BUDGET DEFICIT I.E. THE AMOUNT THAT MUST BE FINANCED BY MONEY CREATION,

RISES TO RS. 4.2 BILLION FROM A REVISED FIGURE OF RS.
3.9 BILLION IN PFY-1978. THIS FIGURE IN TURN IS DOUBLE
ORIGINAL ESTIMATES FOR LAST YEAR.

IN HIS BUDGET SPEECH, ZIA INTRODUCED A NUMBER OF TAX
AND TARIFF MEASURES DESIGNED TO STIMULATE INVESTMENT
AND ASSIST AGRICULTURAL PRODUCTION AND A NUMBER OF
PRICE INCREASES WHICH COULD RAISE AN ADDITIONAL RS. 1.9
BILLION. THESE MEASURES HAVE NOT BEEN INCLUDED IN THE
BUDGET, BUT IF THEY ARE SUCCESSFUL, THE UNCOVERED DEFICIT
WOULD BE REDUCED TO RS. 2.3 BILLION. END SUMMARY.

1. THE PAKISTAN BUDGET FOR FY 1978-79, RELEASED ON
JUNE 29, COVERS THE PERIOD FROM JULY 1, 1978 TO
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JUNE 30, 1979. THE PRESENTATION ALSO INCLUDES
REVISED ESTIMATES FOR FY 1977-78 BASED ON ACTUAL
RECEIPTS AND EXPENDITURE PROJECTED FROM PERFORMANCE
DURING THE FIRST THREE QUARTERS OF THE FISCAL YEAR.

2. THE OVERALL MAGNITUDES OF THE FY 1979 BUDGET
ARE AS FOLLOWS: GROSS RECEIPTS RS. 28.6 BILLION
(1 U.S. DOLS-9.9 RS) OR 13 PERCENT IF PROJECTED GNP
OF RS 223 BILLION, NET RECEIPTS, AFTER DEDUCTING
THE SHARE OF TAXES TO BE TRANSFERRED TO THE PROVINCIAL
BUDGET: RS 24.9 BILLION, TOTAL EXPENDITURES:
RS 43.2 BILLION OF WHICH NON-DEVELOPMENT EXPENDITURE
ARE RS 24.2 BILLION (56 PERCENT) AND DEVELOPMENT
EXPENDITURES RS 19.0 BILLION (44 PERCENT). INCLUDING
A SMALL SURPLUS ON CAPITAL ACCOUNT OF RS 1.0 BILLION.
AND SELF-FINANCING BY FEDERAL AUTONOMOUS ORGANIZATIONS,
(RS 1.0 BILLION), DOMESTIC RESOURCES ARE EXPECTED TO
COVER 61 PERCENT OF BUDGET EXPENDITURES, EXTERNAL
RESOURCES 28 PERCENT, LEAVING A RESOURCE GAP OF RS.
4.2 BILLION OR OF ABOUT 10 PERCENT. THE REVISED
GAP FOR FY 1978 IS RS 3.9 BILLION. ALSO TEN PERCENT
OF THE REVISED EXPENDITURE ESTIMATES FOR THE YEAR.
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ACTION MMO-01

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08

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OES-09 (ISO) W

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R 181110Z JUL 78

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 8217

INFO AMEMBASSY DACCA

AMEMBASSY KABUL

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3. TAX RECEIPTS FOR FY 1978 OF RS 21.9 BILLION
SHOW AN INCREASE OF RS 2.6 BILLION OR 12 PERCENT
OVER THE REVISED ESTIMATES OF 1978. THE BULK (73
PERCENT) CONSISTS OF RECEIPTS FROM CUSTOMS AND
EXCISE DUTIES, REFLECTING PRIMARILY A CONTINUATION
OF THE PRESENT IMPORT POLICY. RECEIPTS FROM INCOME
TAX ARE ESTIMATED AT RS 2.9 BILLION, OR 13 PERCENT
OF TOTAL TAX RECEIPTS, A SLIGHTLY SMALLER SHARE
THAN FOR FY 1978. NON-TAX RECEIPTS AT RS 6.7 BILLION
ARE ABOUT 10 PERCENT HIGHER THAN FOR FY 1978, PRIMARILY
ON ACCOUNT OF HIGHER EXPECTED RECEIPTS ON INTEREST
AND RETURN ON INVESTMENTS.

4. NON-DEVELOPMENT EXPENDITURE OF RS 24.2 BILLION
SHOW AN INCREASE OF 20 PERCENT OVER THE REVISED
ESTIMATES FOR FY 1978. DEFENSE EXPENDITURES ACCOUNT
FOR OVER 40 PERCENT OF THE TOTAL, FOLLOWED BY DEBT
SERVICE (26 PERCENT). DEFENSE EXPENDITURES, DEBT
SERVICES, GRANTS TO PROVINCES AND THE WHEAT SUBSIDY
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ACCOUNT FOR 80 PERCENT OF TOTAL NON-DEVELOPMENT EXPEN-
DITURES. SIGNIFICANT INCREASES OVER THE REVISED
ESTIMATES FOR FY 1978 ARE SHOWN FOR DEBT SERVICE,
REFLECTING THE END OF THE 1974 DEBT RESCHEDULING
AGREEMENT WHICH APPLIES ONLY THROUGH FY 1978, AND
IN THE WHEAT SUBSIDY. THE SUBSIDY FIGURE WILL GO
HIGHER SINCE RECENT ESTIMATES INDICATE WHEAT
IMPORTS MAY BE ABOUT 500,000 TONS GREATER THAN
ESTIMATES USED IN CALCULATING THE PUBLISHED
SUBSIDY.

5. DEVELOPMENT EXPENDITURES AT RS 19 BILLION ARE ONLY 5 PERCENT HIGHER THAN THE REVISED ESTIMATE FOR FY 1978 (RS 18 BILLION). HOWEVER THE LATTER HAS BEEN REVISED UPWARD BY RS 1.0 BILLION FROM THE ORIGINAL FY '78 BUDGET ESTIMATE. EXTERNAL RESOURCES ARE EXPECTED TO FINANCE TWO-THIRDS OF THE BUDGETED DEVELOPMENT EXPENDITURES FOR FY 1979 AND ARE EXPECTED TO BE 37 PERCENT HIGHER THAN THE REVISED ESTIMATE FOR FY 1978. ALL MAJOR CATEGORIES OF FEDERAL DEVELOPMENT EXPENDITURES WHICH INCLUDE DEPARTMENTAL OUTLAYS, EXPENDITURES FOR INDUS BASIN/TARBELA, EXPENDITURES OF THE FEDERAL AUTONOMOUS ORGANIZATIONS AND THE FERTILIZER SUBSIDY SHOW INCREASES OF MORE THAN 10 PERCENT, WITH SUBSTANTIALLY HIGHER INCREASES FOR TARBELA AND THE FERTILIZER SUBSIDY. THUS THE INCREASE OF 5 PERCENT OVER THE REVISED FY 1978 ESTIMATE IS SOMEWHAT MISLEADING SINCE IT RESULTS FROM THE GROSS INCREASE IN FEDERAL DEVELOPMENT EXPENDITURE OF 20 PERCENT BEING REDUCED BY AN ARBITRARY AMOUNT (RS 2.7 BILLION) LABELED AS "LIKELY SHORTFALL", I.E. THE DIFFERENCE BETWEEN AMOUNT BUDGETED AND AMOUNT LIKELY TO BE SPENT DURING THE FISCAL YEAR.

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6. EXTERNAL ASSISTANCE FOR FY 1979, PROJECTED AT RS 12.1 BILLION IS ONLY marginally HIGHER THAN RS 12.0 BILLION INCLUDED IN THE ORIGINAL FY 1978 BUDGET, BUT RS 3.2 BILLION ABOVE THE SUBSTANTIALLY REDUCED REVISED ESTIMATE OF EXTERNAL ASSISTANCE FOR FY 1978 WHICH IS RS 8.9 BILLION. PROJECT AID IN FY '79 ACCOUNTS FOR 48 PERCENT OF TOTAL EXTERNAL RESOURCES. THERE IS A SUBSTANTIAL REDUCTION IN

THE REVISED ESTIMATE OF RS 1.7 BILLION FOR FY '78) WHILE " OTHER ASSISTANCE" IS ESTIMATED TO INCREASE SUBSTANTIALLY, FROM RS 972 MILLION TO RS.3.7 BILLION.

7. THE MOST SIGNIFICANT REVISIONS IN THE BUDGET FOR FY 1978 ARE AN INCREASE IN TAX RECEIPTS BY ALMOST 10 PERCENT, A SMALL DECLINE IN NON-DEVELOPMENTAL EXPENDITURES AND AN INCREASE IN DEVELOPMENT EXPENDITURES DESPITE A SUBSTANTIAL SHORTFALL OF EXTERNAL ASSISTANCE BELOW THE ORIGINAL BUDGET ESTIMATE. AS A RESULT THE RESOURCES GAP SESTIMATED IN THE ORIGINAL BUDGET AT RS 1.5 BILLION HAS MORE THAN DOUBLED, AND IS NOW ESTIMATED TO HAVE BEEN RS 3.9 BILLION.

8. THE SIGNIFICANT INCREASE IN TAX RECEIPTS IS
PRIMARILY IN CUSTOMS AND EXCISE DUTIES, REFLECTING
PRIMARILY HIGHER LEVELS OF IMPORTS. NON-TAX
RECEIPTS, ON THE OTHER HAND, HAVE BEEN REVISED DOWN-
WARD, REFLECTING LOWER INTEREST RECEIPTS AND RETURN
FROM NATIONALIZED INSTITUTIONS AND LOWER RECEIPTS
FROM POST OFFICE AND T AND T. THE SOMEWHAT LOWER
ESTIMATE FOR NON-DEVELOPMENT EXPENDITURES IS ENTIRELY
DUE TO A SUBSTANTIAL DOWNWARD REVISION FOR DEBT
SERVICE WHICH MORE THAN OFFSET INCREASES IN OTHER
ITEMS SUCH AS DEFENSE EXPENDITURES AND THE WHEAT
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R 181110Z JUL 78
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 8218
INFO AMEMBASSY DACCA
AMEMBASSY KABUL
AMEMBASSY NEW DELHI
AMEMBASSY NEW DELHI
AMEMBASSY TEHRAN

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9. AS A RESULT OF THE IMPROVED REVENUE PERFORMANCE
AND SOME REDUCTION IN THE TOTAL FOR NON-DEVELOPMENT
EXPEDITURES , THE SURPLUS AVAILABLE FOR FINANCING
THE ANNUAL DEVELOPMENT PROGRAM FOR FY 1977-78
INCREASED FROM RS 400 MILLION TO RS 2.1 BILLION.

THIS INCREASE, HOWEVER IS MORE THAN OFFSET BY THE RS 3.1 BILLION REDUCTION IN EXTERNAL RESOURCES WHICH INCLUDES NON-RECEIPT OF THE RS 3 BILLION IRANIAN GUARANTEED CITIBANK LOAN. BOTH PROJECT AND NON- PROJECT AID SHOW SUBSTANTIAL DECLINES AND ONLY FOOD AID IS HIGHER (RS1.7 BILLION AS AGAINST RS 1.1 BILLION IN THE ORIGINAL BUDGET. AS NOTED, FOOD AID FOR FY 1979 IS ESTIMATED AT RS 662 MILLION). OF THE DEVELOPMENT EXPENDITURES ONLY THOSE FOR THE INDUS BASIN/TARBELA AND FOR THE BIM CORPORATION SHOW SIGNIFICANT INCREASES, MAINLY FOR REPAIRS TO TARBELA DAM AND CONSTRUCTION OF THE KARACHI STEEL MILL. HOWEVER, IT IS DIFFICULT TO COMPARE INDIVIDUAL EXPENDITURES CATEGORIES SINCE THE "LIKELY SHORTFALL" UNCLASSIFIED

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IN THE ORIGINAL BUDGET OF RS 1.1 BILLION HAS BEEN REDUCED TO RS 305 MILLION IN THE REVISED BUDGET. THIS SHORTFALL IS NOT APPORTIONED BY DEVELOPMENT EXPENDITURE CATEGORIES.

10. IN JANUARY 1978, FACED WITH A DETERIORATING BUDGET SITUATION GENERAL ZIA ANNOUNCED A SET OF FISCAL MEASURES DESIGNED TO LIMIT THE FY 1978 BUDGET DEFICIT TO THE ORIGINAL ESTIMATE OF RS 1.5 BILLION. THE PACKAGE INCLUDED INCREASES IN CUSTOMS AND EXCISES, AN INCREASE IN IRRIGATION RATES AND A SURCHARGE ON INCOMES. IT WAS DESIGNED TO YIELD RS 1.75 BILLION, OF WHICH RS 1.0 BILLION WAS TO RESULT FROM IMPROVED TAX ADMINISTRATION AND COLLECTION. IT IS DIFFICULT TO ESTIMATE TO WHAT EXTENT THE IMPROVEMENT IN TAX RECEIPTS SHOWN IN THE REVISED BUDGET REFLECT THE EFFECT OF THESE MEASURES, SINCE THEY WOULD APPLY TO ONLY ONE QUARTER OF RECEIPTS (JANUARY TO MARCH) AND OTHER FACTORS HAVE ALSO HAD AN IMPACT. IT IS CLEAR HOWEVER, AS NOTED, THAT THE IMPROVED REVENUE PERFORMANCE HAS NOT BEEN SUFFICIENT TO OFFSET THE SHORTFALL IN FOREIGN ASSISTANCE AND THE INCREASE IN DEVELOPMENT EXPENDITURES. AS A RESULT, AS INDICATED, THE SHORTFALL FOR FY '77-'78 IS NOW ESTIMATED AT RS 3.9 BILLION.

11. THE PROSPECTIVE SHORTFALL OF RS 4.2 BILLION IN THE FY 1979 BUDGET HAS GIVEN RISE TO SIMILAR CONCERNS. IN HIS BUDGET SPEECH OF JUNE 29, 1978 THE CHIEF MARSHAL LAW ADMINISTRATOR (CMLA) ADDRESSED THIS ISSUE WITHIN THE BROADER CONTEXT OF STIMULATING PRODUCTION AND IMPROVING RESOURCE MOBILIZATION. HE ANNOUNCED A NUMBER OF MEASURES DESIGNED TO PROMOTE UNCLASSIFIED

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INVESTMENT, STIMULATE INDUSTRIAL AND AGRICULTURAL PRODUCTION AND IN PARTICULAR HELP THE AILING TEXTILE INDUSTRY. AT THE SAME TIME HE ANNOUNCED MEASURES DESIGNED TO REDUCE THE ESTIMATED RESOURCES GAP. NONE OF THESE MEASURES ARE REFLECTED IN THE BUDGET ESTIMATES.

12. THE MEASURES DESIGNED TO STIMULATE THE TEXTILE INDUSTRY ARE PRIMARILY SELECTIVE ABOLITIONS OR REDUCTIONS OF IMPORT AND EXCISE DUTIES. FOR AGRICULTURE THERE IS AN INCREASE IN THE SUBSIDY FOR PESTICIDES AND THEIR IMPORTATION AS WELL AS IMPORTS OF POSER TILLERS AND PLANTERS AND TRACTORS IS ENCOURAGED. THE CONTROVERSIAL TAX ON AGRICULTURAL INCOMES WILL REMAIN SUSPENDED FOR THE NEXT FISCAL YEAR AND THE LAND REVENUE ASSESSMENT WILL BE COLLECTED IN EASY INSTALLMENTS. THE EXCISE DUTY ON SUGAR WILL BE CHANGED FROM A CAPACTIY TO A PRODUCTION BASIS IN ORDER TO REDUCE LITIGATION.

13. IN ORDER TO REDUC E THE ESTIMATED RESOURCE GAP THE CMLA ANNOUNCED PRICE INCREASES FOR A SNUMBER OF COMMODITIES AND SERVICES,INCLUDING ELECTRICITY RATES, GASOLINE, AND FUEL OIL PRICES, VEGETABLE GHEE, CEMENT, TELEPHONE RATES AND AIRPORT TAXES. HE ADMITTED THAT SOME OF THESE MEASURES WILL PLACE AN ADDITIONAL BURDEN ON LOWER INCOME GROUPS, BUT STATED THEY WERE NEEDED IN ORDER TO MOBILIZE NECESSARY RESOURCES TO MEET THE DEVELOPMENT OBJECTIVES. IN ORDER TO HOLD THE LINE ON EXPEDNTIRUES HE ALSO ANNOUNCED THE ESTABLISHMENT OF AN ECONOMY COMMITTEE WHICH WILL BE RESPONSIBLE FOR REDUCING NON-DEVELOPMENT EXPENDITURES AND ENGAGING IN A PROJECT-BY-PROJECT REVIEW OF DEVELOPMENT EXPENDITURES.

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14. THE CMLA ESTIMATED THAT THE NET RESULT OF THE PROPOSED MEASURES TO INCREASE REVENUES (RS 2, 385 MILLION) AND REDUCE OR ELIMINATE CERTAIN DUTIES AND TAXES (RS 475 MILLION) WILL BE AN INCREASE IN REVENUE OF RS 1.9 BILLION WHICH WOULD REDUCE THE ESTIMATED GAP FROM RS 4 BILLION TO RS 2.3 BILLION. HE ANTICIPATED A FURTHER REDUCTION IN THE GAP FROM

IMPROVEMENTS IN TAX ADMINISTRATION AND A REDUCTION
IN EXPENDITURES. THE " IRREDUCIBLE MINIMUM GAP", WILL BE
FINANCED BY INFLATIONARY BORROWING.

B.FY 78-79 BUDGET- COMMENTS

1. THE BUDGET FOR FY 1979 SHOWS NO SIGNIFICANT
DEPARTURES FROM THE PATTERN FOLLOWED IN PRECEDING
YEARS: HEAVY RELIANCE ON CUSTOMS AND EXCISE DUTIES
WHOSE INCREASES ARE PREDICATED ON THE CONTINUATION
OF THE PRESENT IMPORT POLICY, AND CONTINUED EMPHASIS
ON MAJOR INFRASTRUCTURAL AND INDUSTRIAL INVESTMENTS
TO BE FINANCED LARGELY FROM EXTERNAL ASSISTANCE.
NON-DEVELOPMENT EXPENDITURES WHICH COMPRISE MORE
THAN HALF OF PROJECTED EXPENDITURES SHOW A MORE
RAPID INCREASE THAN DEVELOPMENT EXPENDITURES,
IN PART DUE TO A SUBSTANTIAL INCREASE IN DEBT SERVICE
PAYMENTS, BUT ALSO BECAUSE OF EVEN LARGER SUBSIDIES.,
SHOULD THE OPTIMISTIC ASSUMPTIONS WITH RESPECT TO
THE INCREASE IN EXTERNAL ASSISTANCE FAIL TO
MATERIALIZE BUDGET DEVELOPMENT EXPENDITURES MAY
HAVE TO BE REDUCED ALSO, INCREASING FURTHER THE
RELATIVE SHARE OF NON-DEVELOPMENT EXPENDITURES.
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OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 PA-02 AGRE-00
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R 181110Z JUL 78
FM AMEMBASSY ISLAMABAD
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2. WITHIN THE CATEGORY OF DEVELOPMENT EXPENDITURES:
PRIORITY CONTINUES TO BE GIVEN TO LARGE-

SCALE INDUSTRIAL AND INFRASTRUCTURE PROJECTS. ALLOCATIONS FOR MAJOR PROJECTS SUCH AS THE KARACHI STEEL MILL, CEMENT AND FERTILIZER PLANTS, REPAIRS FOR TARBELA AND OTHER POWER AND IRRIGATION PROJECTS SHOW AN INCREASE OF RS 3.2 BILLION AS AGAINST A RS 2 BILLION INCREASE FOR THE ANNUAL DEVELOPMENT PROGRAM (ADP) AS A WHOLE.

3. PRESUMABLY THE BUDGET FOR 1979 SHOULD REFLECT THE IMPLEMENTATION OF THE FIRST YEAR OF THE FIFTH FIVE YEAR PLAN (1979-1983) WHICH HAS JUST BEEN PUBLISHED. HOWEVER, AS STATED IN THE BUDGET-IN-BRIEF, THIS HAS NOT BEEN POSSIBLE. IT IS NOTED THERE THAT THE PRIORITIES IMPLICIT IN THE PLAN WOULD REQUIRE AN OUTLAY OF RS 25 BILLION, WHILE THE BUDGET INCLUDES ONLY RS 19 BILLION FOR THE ADP AND RS 3.5 BILLION OF INVESTMENTS IN THE SEMI-PUBLIC SECTOR. NOR DO THE PRIORITIES IN UNCLASSIFIED

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BUDGET REFLECT THOSE OF THE PLAN, IN PARTICULAR THE EMPHASIS ON AGRICULTURE AND THE SOCIAL SECTOR. EXPENDITURES FOR INDUSTRY, TRANSPORTATION AND COMMUNICATIONS ACCOUNT FOR 45 PERCENT OF DEVELOPMENT EXPENDITURES, WATER AND POWER 35 PERCENT, WHILE AGRICULTURE (THE MAJORITY OF WHICH GOES FOR AN INCREASED FERTILIZER SUBSIDY) ACCOUNTS FOR 7.3 PERCENT, THE SAME PERCENTAGE WHICH WAS ALLOCATED IN THE ADP FOR FY 1978, AND EDUCATION, HEALTH AND POPULATION PLANNING COMBINED ACCOUNT FOR 5.3 PERCENT. THE DEVELOPMENT COMPONENT OF THE EXPENDITURE FOR EDUCATION FOR FY 1979 HAS REMAINED PRACTICALLY UNCHANGED AND INCLUDES AS A NEW ITEM RS 75 MILLION FOR THE CONSTRUCTION OF THE ISLAMABAD SPORTS COMPLEX. BOTH THE ALLOCATIONS FOR THE HEALTH SECTOR AND POPULATION PLANNING ARE BELOW 1977-78, INCLUDING A REDUCTION IN FUNDS FOR THE MALARIA CONTROL PROGRAM.

4. THE BUDGET ASSUMES A GDP GROWTH RATE OF 6.2 PERCENT, AND A FURTHER SUBSTANTIAL INCREASE IN THE GROWTH OF THE AGRICULTURAL SECTOR (5.7 PERCENT). THE MANUFACTURING SECTOR IS PROJECTED TO GROW BY 8.9 PERCENT AND LARGE-SCALE INDUSTRIAL UNITS BY 10.8 PERCENT. THE LATTER WILL DEPEND SIGNIFICANTLY ON THE IMPROVEMENTS IN THE TEXTILE INDUSTRY. AS MENTIONED, A NUMBER OF CONCESSIONS PRIMARILY TO THE TEXTILE INDUSTRY WERE ANNOUNCED IN THE BUDGET SPEECH. WHETHER THEY WILL BE SUFFICIENT IN VIEW OF CONTINUED

UNCERTAINTIES, TO BRING ABOUT THE HOPED-FOR
PRODUCTION INCREASES AND IMPROVED EXPORT PERFORMANCE
REMAINS TO BE SEEN.
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5. COPIES OF THE BUDGET DOCUMENTS WERE
POUCHED TO DEPARTMENT JULY 10.
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NOTE BY OC/T: SECTION 3 DELAYED; TO FOLLOW.

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Message Attributes

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Draft Date: 18 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978ISLAMA06998
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780306-1133
Format: TEL
From: ISLAMABAD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780745/aaaablzx.tel
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Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6fdbcb370-c288-dd11-92da-001cc4696bcc
Office: ACTION MMO
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 11
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 78 ISLAMABAD 6356
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1962975
Secure: OPEN
Status: NATIVE
Subject: CERP 0200- PAKISTAN BUDGET FOR 1978: MORE OF THE SAME
TAGS: EGEN, PK
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/6fdbcb370-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014